

Message Text

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PAGE 01 BONN 14920 01 OF 02 111749Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 /092 W

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R 111736Z SEP 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2803

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

INFO AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 14920

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GOVERNMENT STRATEGY ON FISCAL PROGRAM

REF: BONN 14787

1. THE STRATEGY OF THE GOVERNMENT'S FORCING THE VAT
INCREASE ISSUE DESPITE THE FOREKNOWLEDGE THAT IT WOULD
BE UNPOPULAR AND PROBABLY BE VOTED DOWN IN THE BUNDESRAT
IS TO PUT THE OPPOSITION ON THE SPOT, ACCORDING TO A
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PAGE 02 BONN 14920 01 OF 02 111749Z

CHANCELLERY STAFFER. HE TOLD US THAT THE PLOY IS TO

PLACE THE BURDEN OF IDENTIFYING THOSE VOTER-SENSITIVE BUDGET ALLOCATIONS THAT SHOULD RECEIVE FURTHER CUTS ON THE BACKS OF THE CDU/CSU. HE SAID THAT THE ONLY ALTERNATIVE TO THE VAT INCREASE IS TO EFFECT MORE DRASTIC REDUCTIONS IN GOVERNMENT EXPENDITURES THAN THOSE INCORPORATED IN THE PRESENT BUDGET PROPOSAL, WHICH THOUGH HARDLY DRACONIAN, ARE PROBLEM ENOUGH FROM A POLITICAL STANDPOINT. IF THE OPPOSITION CAN BE FORCED TO SHARE THE ONUS OF THE DEEPER CUTS, BY THEIR SIGNIFYING HOW THEY WOULD HANDLE THE PROBLEM, THE SPD-FDP COALITION FIGURES IT WILL NOT HAVE LOST GROUND ON THIS STICKY FISCAL ISSUE. THE PROBLEM IS, HOWEVER, THAT THE OPPOSITION HAS YET TO BE VERY SPECIFIC IN POINTING TO WHERE THEY WOULD CUT MORE DEEPLY. ON THE OTHER HAND, IF THEY SHY AWAY FROM THE POLITICALLY HARD TASK OF DEEPER BUDGET CUTS IN THEIR COUNTERPROPOSAL, THEY WILL BE FORCED TO SHARE THE OTHER ONUS OF VOTING WITH THE GOVERNMENT TO INCREASE THE VAT. FOR THE OPPOSITION NOT TO TAKE THE BAIT IN EITHER OF THESE GOVERNMENT SCENARIOS, WOULD PLACE THEM SQUARELY IN LINE FOR CRITICISM AS HAVING AT LEAST SHARED RESPONSIBILITY FOR THE ENSUING ECONOMIC/FINANCIAL PROBLEMS.

2. THE CHANCELLERY CONTACT OBSERVED THAT THE RISE OF GERHARD STOLTENBERG AS THE PRINCIPAL OPPOSITION ECONOMIC SPOKESMAN WAS SOMEWHAT SURPRISING, ALONG WITH THE COMMITANT RELATIVE DECLINE OF STRAUSS IN THIS REGARD. HE THOUGHT, THOUGH, THAT STOLTENBERG'S RECENT PUBLIC APPEARANCES ON THIS ISSUE WERE RATHER DISAPPOINTING. (COMMENT: IT COULD BE THAT STRAUSS PERCEIVES THE NO-WIN ASPECT OF THE TRAP BEING LAID AND IS CONSEQUENTLY LYING LOW.)

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PAGE 01 BONN 14920 02 OF 02 111747Z

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 14920

3. COMMENT. IT CANNOT, OF COURSE, BE SAID WITH ANY CERTAINTY THAT THE STRATEGY DESCRIBED ABOVE IS THE ONE THAT REALLY MOTIVATED THE CHANCELLOR. THERE IS A DEGREE OF LOGIC TO IT AND IT COULD THEREFORE VERY WELL BE THE CASE. HOWEVER, THERE ARE OTHER LOGICAL EXPLANATIONS ALSO POSSIBLE. FOR EXAMPLE, THE FDP AND SIMILAR-MINDED PEOPLE MIGHT HAVE BEEN SOLD ON THE APPROACH AS ONE THAT WOULD EVENTUALLY FORCE A MEANINGFUL CUTBACK IN GOVERNMENT EXPENDITURES AND IN THE GROWTH OF THE PUBLIC SECTOR'S SHARE OF THE GNP AND/OR TO MAKE WAY FOR A BUSINESS TAX CUT FURTHER DOWN THE ROAD. ALSO, IT CONFIDENTIAL

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PAGE 02 BONN 14920 02 OF 02 111747Z

COULD WELL BE THAT THE VAT INCREASE PROPOSAL BEING MADE SO EARLY AND IN THE FACE OF LIKELY DEFEAT WAS SOLELY TO CONDITION PUBLIC OPINION ON THE ISSUE SO THAT WHEN THE REAL MOMENT OF TRUTH COMES ONE YEAR FROM NOW SINCE THE TARGET EFFECTIVE DATE IS 1977), IT WILL NOT COME AS A SHOCK IN THE MIDST OF THE ELECTION CAMPAIGN. IT COULD BE THAT IT WAS A COMBINATION OF ALL THESE FACTORS THAT LED THE COALITION DOWN THIS PARTICULAR POLICY PATH.
HILLENBRAND

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